ARIZONA ECONOMIC TRENDS

A PUBLICATION OF
THE ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Summer 2000

Wide Variety of Economic Issues in Sprawl Debate

Lack of Details, Context Can Cloud Debate Over Growth-Management Plans

RESEARCH ANALYSIS

The rhetoric has been turned up in the debate over how to slow down urban sprawl in Arizona. Through early July, most media reports (newspaper, broadcast) on two plans that attempt to address fast-paced development throughout the state have either lacked specifics or solid supporting evidence to back up predictions. Justification for or against either growth-limiting proposals — one a recently enacted law and another a ballot initiative — has usually been in the form of a quote that says one plan is too easy on developers or the other will wreck the state's economy. And when projections of massive job losses or little harm will come to the area's economy, facts to back up those claims are either not published or are conspicuous by their absence.

Those opposing the Citizens Growth Management Initiative, a Sierra Club-sponsored initiative that would *mandate* cities to enact 10-year growth "boundaries" beyond which development could not extend, almost unilaterally say growth boundaries will raise housing prices and severely damage the state's economy. And those opposing the Legislature's Growing Smarter Plus law that passed in this year's session, generally point out that any proposal that doesn't *mandate* growth boundaries will lack the substance or power to curtail sprawl.

The problem is there are many significant and complex issues surrounding both proposals (see Table 4). And it will likely be difficult for economists or planners to accurately predict beforehand the consequences of either plan on the state's economy or sprawl, based on the minimal amount of economic and other data available on similar plans currently in effect. In researching this topic, only Oregon has enacted anything close to the Sierra Club proposal, and opinions vary widely on its effects on that state's economy and quality of life.

However, it is worthwhile considering general economic issues and "potential" effects of growth-management plans and, in particular, growth boundaries. And it is the intent of this article to highlight and discuss some of the areas of concern. But this analysis will not come to any conclusions about economic issues, nor will it speak to political or philosophical issues regarding the two proposals.

Overview of Problem

Across the state — in both rural and urban areas — the debate on limiting growth grows louder by the day. In Flagstaff and Prescott, encroachment on pristine forest land by new subdivisions and commercial development draws concerns from long-time residents and newcomers worried that the slower pace of living they enjoy will be replaced with increased traffic and crime. On the other hand, rural areas that have suffered from a lack of or shutdown of industry (e.g., mines, logging operations) believe that severe growth restrictions may limit their abil-

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ity to create jobs and share in the benefits of the current expansion.

In Tucson, the fight over the effect of “big box” stores (e.g., Home Depot, Wal-Mart) on neighborhoods prompted the city council to severely restrict retail stores between 100,000 and 200,000 square feet in size. That restriction is currently being challenged in court.

Then there is metropolitan Phoenix, which was given a “dishonorable mention” by the Sierra Club in its 1998 rankings of the 30 most sprawl-threatened U.S. Cities (see Figure 1). Freeway construction hasn’t been able to keep up with commercial and residential growth, as interconnected cities, once miles apart, fight for sales tax dollars and the prestige of bringing major companies and retailers to their cities.

At the same time, Valley residents express a love-hate relationship with sprawl. While most metro Phoenix residents grow weary of ever lengthening commutes, few will give up the independence of driving dozens of miles to work versus working closer to home or using mass transportation. Even expansion of the bus system in Phoenix and, eventually light rail, isn’t expected to make a significant dent in traffic congestion in the short or long term, unless there is a major shift in attitudes of Valley residents toward mass transportation, according to several traffic experts.[1] And that isn’t likely, these experts say.

Figure 1

1998 Sierra Club Rankings of Sprawl-Threatened U.S. Metro Areas[(a)]

Note:

a) **Cities with Population Greater than 1 Million**

Cities with Population between 500,000 and 1 Million

Cities with Population Between 200,000 and 500,000

Dishonorable Mention

Source: Sierra Club, Copyright 1998

History of Competing Plans to Limit Sprawl in Arizona

Despite rapid (some would say “runaway”) growth in Arizona over the last several decades, only in the last couple of years have serious attempts been made to deal with sprawl. But once the first “shot” was fired two years ago, environmental and business interests have staked out positions that often seem irreconcilable. Perhaps the most contentious of these issues: mandatory growth boundaries.

In 1998, the state’s Grand Canyon chapter of the Sierra Club launched an initiative similar to its current Citizens for Growth Management initiative. Although the initiative ended up failing to get on the November ballot, in response to a potential threat to Arizona’s real estate industry and economy, the state Legislature passed The Growing Smarter Act of 1998. Major provisions in the bill included: 1) requiring cities and counties by 2002 to bring general and comprehensive plans into compliance with new state policies, such as planning for public transportation and open spaces, addressing the environmental effects of future development, and requiring that development pays a “fair share” of public facility and service needs (e.g., police, schools, libraries); 2) appropriating $220 million in matching funds over 11 years so that cities or counties could purchase State Trust Lands and preserve open spaces; and 3) creating a 15-member Growing Smarter Commission to recommend other ways to deal with fast growth without hurting the state’s mutlibillion-dollar real estate industry.

The state’s Sierra Club branch, however, had problems with many aspects of the Growing Smarter plan and launched a new initiative in late 1999 that received sufficient signatures to qualify for the November 2000 election ballot.[2] The environmental group believes that developers should be required to pay not just a *fair* share, but the *entire* cost of public services (e.g., roads, utilities, police) of most new developments.

Additionally, the Citizens for Growth Management initiative would: *require* cities or counties with a population of 2,500 or more to adopt a growth-management plan and specify 10-year "growth boundaries" beyond which development could not occur; allow for city or county governing boards, with a four-fifths vote, to allow exceptions to a growth plan for projects less than 20 acres; require voter approval of an amendment to the growth plan or for exceptions given to projects 20 acres or greater; give county boards of supervisors the power to adopt ordinances and regulations governing land divisions in unincorporated areas; and require growth-management plans to set policies that protect air and water quality that meet state and federal environmental standards, ensure adequate supplies of water, and promote multiple forms of mass transportation.

And in mid-February — in response to the likelihood the Sierra Club initiative would make the ballot — the Legislature passed Growing Smarter Plus. Major provisions included: creating a conservation trust that, if approved by Arizona voters in November and OK'd by Congress, would allow the state to set aside up to 3 percent of state-owned land (270,000 acres) for preservation; requiring cities and counties with a population greater than 10,000, or growing at a rate of 2 percent annually the past decade, to seek voter approval of their general plans at least once every 10 years; allowing counties to impose development fees and giving them the authority to ensure that lot splits comply with local zoning laws; prohibiting cities from annexing land unless municipal services could be provided within 10 years; and establishing a process where

Table 1
Costs of Sprawl

To Taxpayers

- Building and maintaining highways and other major infrastructure improvements to serve suburbs.
- Social problems that occur in older, decaying neighborhoods when neglected or abandoned.
- Environmental solutions due to problems (wetlands, endangered species, air pollution) caused by development of virgin land and metropolitan fringe.

To Business

- Reduced quality of life makes area less desirable for expanding or moving businesses.
- Resistance to growth by suburbs (i.e., Wal-Mart) make it difficult for businesses to relocate or expand (Arizona took film studio from Calif. Because of lower housing prices and less traffic, said story (not any more).
- Higher direct business costs and taxes to offset the side-affects of sprawl. Two examples: 1) Intel has to make a number of cost enhancements to satisfy neighbors; 2) State has to make number of changes in freeway to please neighbors.
- Geographical mismatch between workers and jobs – causes higher labor costs and loss in productivity. Two examples: 1) Longer commutes; 2) Number of workers excluded from applying for jobs.
- Abandoned investments in older communities – e.g., utility companies.

To Residents of New Suburbs

- Increased costs for maintaining automobiles due to longer commutes.
- Time Lost commuting to work or other destinations.
- Increased property taxes to pay for infrastructure.

To Farmers

- Loss of farmland, some of which can be replaced but at a higher economic and environmental cost.
- Pollution threatens productivity of existing land – ozone pollution can reduce yields up to 30 percent.

Source: "Beyond Sprawl: New Patterns of Growth to Fit the New California," 1995 landowners can appeal private-property rights issues.

Economic Costs of Sprawl

Between the end of World War II and the early 1970s, California was the envy of other states. It's diverse and booming economy, natural resources, and growing population allowed the Golden State to live up to its nickname, producing one of the largest economies in the world. But then the state began to hit a wall, as the downside of sprawl took hold — gridlock occurred on city streets as well as freeways, reducing worker productivity; housing prices escalated; the supply of developable land dwindled; and government agencies were unable to keep up with public services.

"We cannot afford another generation of unchecked sprawl," said a bipartisan California report on growth management. Unchecked growth cannot be sustained forever. At some point this initial surge must mature into more managed, strategic growth."[3]

But sprawl is not only a California disease. Places not usually associated with this urban virus — St. Louis, Cincinnati, Kansas City, and Minneapolis — are now feeling the effects and looking for a way to combat or slow down this economic drag.

According to that California report, following are some of the economic costs of sprawl:

- Higher costs to business — loss in worker productivity due to longer commuting time and reduced quality of life; resistance by residents to "big-box" stores (e.g., Home Depot, Wal-Mart) or industry require higher direct business costs and taxes to offset the side-effect of sprawl (e.g., businesses or super stores have to make a number of design enhancements to satisfy neighbors); geographical mismatch between workers and jobs causes higher labor costs and loss in productivity.
- Extra auto expenses for suburban residents — increased costs for maintaining automobile and lost time commuting to work and other locations.

> *"Americans are not satisfied with business as usual in the context of land-use planning and zoning decision making; change is here and more reforms are on the way."*
>
> *"Planning Communities for the 21st Century,"*
>
> *—American Planning Association*

- Affects residents in older part of cities — loss of access to jobs because working poor cannot easily get to higher-paying jobs in suburbs, particularly with a poor transit system; causes economic segregation by luring middle class away from older neighborhoods, thus causing the distribution of income to become more skewed; causes decline in property values and shopping centers in abandoned communities.
- Higher infrastructure costs — More highways and added pollution, which are borne by government and residents (e.g., higher taxes); abandoned investments in older communities, such as utility lines; suburbs are perceived as low-cost locations, but in reality residents must pay additional taxes for new roads, schools and infrastructure.[4]
- Hidden costs — Building and maintaining highways and other infrastructure; dealing with decaying neighborhoods that are neglected and abandoned; environmental problems from development of virgin land, wet lands, endangered species, and air pollution.
- Costs to farmers — loss of farmland, some of which can be replaced but at higher economic and environmental costs; pollution threatens productivity of existing land — ozone pollution can reduce yields up to 30 percent;[5] farm communities turned into in bedroom suburbs, destroying agriculture infrastructure and productivity, lending inevitability of more sprawl.

Economic Benefits of Sprawl

It might seem like an oxymoron to say there are benefits to sprawl, let alone be politically incorrect. But in the Fall 1998 issue of *Brookings Review*, two professors from the University of Southern California's Policy, Planning, and Development Department, brought up a number of convincing arguments why government should take a hands-off, or an extremely limited, approach to growth management.

According to professors Peter Gordon and Harry W. Richardson, at least national data show that "most commuting now takes place suburb-to-suburb on faster, less crowded roads."[6] The authors claim that the suburbs have become a traffic "safety valve" as industry has followed homeowners into the exurban areas, and that in the last three surveys (at the time the article was written) by the Nationwide Personal Transportation Survey, work-trip speeds increased — 28mph in 1983, 32.3mph in 1990, and 33.6mph in 1995.[7] In addition, changing workplace trends and relatively inexpensive technology (e.g. low-priced computers, Internet access) that now promote flexible work schedules and telecommuting have cut down on the need for workers to drive to work during rush hour, or drive to work at all.

Another benefit of sprawl, Gordon and Richardson say, is rather the counter-argument to those who claim that expanding suburbs have reduced the amount of U.S. farmland, which then hurts agricultural production. To the contrary, the authors say, U.S. cropland peaked around 1930 (pre-Dust Bowl years), but each year "American farmers grow *more* crops using *less* land and labor."[8]

Sprawl can also be beneficial when it comes to shopping and home values. The advantages of having "super" stores in the suburbs that sell electronics, furniture, or even cars, have allowed for more competition, lower prices, and convenience for consumers who likely would be paying much more for products if there were fewer choices and smaller stores located in higher-priced, densely-populated areas.[9] And with the growth of the Internet, suburban homeowners need not make as many trips for goods and services. Even groceries are available on a same-day basis through cyberspace.

As for homes, " ... inflexible zoning codes (in the city) and the deductibility of mortgage interest and real estate property taxes, favor dispersal," say the professors. Even if the deduction of mortgage interest was eliminated, the authors say larger lot sizes in the suburbs, plus poorer amenities in the central cities give people reason to move to the suburbs.[10] And even as lot sizes become smaller due to higher land prices, suburbs still have many advantages over central cities — good public schools, relative safety from crime, easy access to recreation and shopping opportunities, low taxes, and responsive public services.

One misconception that often distorts the anti-sprawl argument is that suburbs are dominated by single-family homes on large lots. The authors say rather that only 50 percent of the metropolitan housing stock is in the suburban and exurban areas, while 50 percent is in the nation's "presumably" higher-density central cities.[11]

One area of agreement, however, between the authors of the California report (opponents of sprawl) and the Southern Cal professors (proponents of sprawl) is that developers and consumers should pay for any higher costs of providing services to suburbs. "Even if it could be conclusively demonstrated that suburban and exurban infrastructure costs are higher than central-city costs, the solution is not to ban suburbanization and low-density development or introduce strict growth-management controls," the professors say, adding, "A better approach is to use developer impact fees ... to recoup any difference between the fiscal costs and revenues from residential development."[12]

Table 2

Growth-Management Terminology

Density – Number of people or households per acre of land.

Green Belt – A strip of dedicated open space around cities where land development is prohibited except for agricultural, park land, and open-space uses.

Growth Management – The direction, control, channeling, or guidance of commercial and residential development through public policy.

Infill – The development of vacant land in already urbanized areas with existing homes and buildings. Incentives commonly given to developers who build on infill property.

Infrastructure – Public services such as roads, sewers, water, schools, etc.

Metro – The regional planning agency overseeing Portland's growth boundary and the implementation of the region's 2040 long-range plan. Metro's board is the only elected regional government in the nation and is responsible for regional transportation and land-use planning.

Urban-Growth Boundaries – Politically designated line around cities beyond which development is either prohibited or highly discouraged.

Urban-Service Area – Boundary beyond which public infrastructure services will not be extended.

"Smart Growth"

It wasn't a coincidence that caused many states to begin overhauling their land-use planning in recent years. (In 1999 alone, approximately 1,000 state land-use reform bills were introduced, with 200 enacted into law.[13]) A number of factors contributed to a "sea change" in attitudes to address growth management, according to the American Planning Association, which released a report in December 1999 on growth-management planning in the country.[14] Chief among these issues was the economic boom of the past several years, "which has resulted in an American landscape that is in a constant state of transformation and upheaval." "Americans are not satisfied with business as usual in the context of land-use planning and zoning decision-making; change is here and more reforms are on the way."[15]

Yet, it is more typical for states to take an incremental approach, such as has been proposed by the Growing

Smarter plans, as opposed to resorting to mandatory growth-management or growth boundaries, according to the planning report. And in most cases, state Legislatures are adopting strategies that are tailored to the goals and desires of their constituents. "What is clear from the report's findings ... there is no best way to modernize or reform land-use laws that will apply equally to each and every state."16

Arizona's Growing Smarter legislation — passed by the Legislature and adopted by citizens in 1998 (see above) — took a significant, but limited approach to growth planning, compared to a handful of states that have mandated strong growth-management tools, or even growth boundaries. According to the American Planning Association, that puts Arizona in the mainstream among states recently tackling the growth issue. "The vast majority of states (30) make local comprehensive planning optional, meaning that statutes merely authorize local governments to plan, or conditionally mandatory, meaning that the statutes require a local government to develop a plan only if it chooses first to create a planning commission."[17]

And now, with passage of the Growing Smarter Plus plan by the Legislature, it appears Arizona has one of the stronger laws in the APA's mid-level reform categories — "authorization for innovative and flexible land-use controls" (see Table 3). The new law would require "all large or fast-growing communities to establish (voter-approved) growth areas where more urbanized development would occur."[18] But the new law would not go to the level of mandating growth boundaries, which is the type of legislation that would fall into the APA's strongest reform category.

Economic Benefits of Limited Growth Management

The moderate, or more limited, approach to growth management has a number of economic benefits, according to the planning report:

Table 3

Three Types of Land Management Reform Being Undertaken by States

- √ **Basic recodification and tightening of existing land-use laws and regulatory procedures.**
- √ **Authorization for innovative and flexible land-use controls.**
- √ **Significant overhauls in the framework of land-use regulation to reform the "business-as-usual" process that have yielded undesirable results.**

Source: "Planning Communities for the 21st Century," American Planning Association, 1999

- It begins the process of overhauling antiquated land-use planning laws (some of which date back to the 1920s) without going too far too soon, which might lead to confusion among community planners and developers.
- It sends a signal to planners and developers that unchecked growth cannot be sustained forever, and that more and more of infrastructure costs (particularly in outlying development) are likely to be picked up by developers and consumers, not government.
- The more limited approach doesn't shock the state real estate system. In 1986, U.S. tax-reform legislation eliminated many real estate tax deductions and other loopholes, but it also contributed to sending the state's (and nation's) real estate and construction industries into a tailspin.
- It gives lawmakers the flexibility to pick-and-choose the type of planning reform they deem necessary from ideas already tested by other states.
- By incrementally increasing mandatory aspects of growth management — going from Grower Smarter to Growing Smarter Plus — lawmakers can get a sense of the public's and business' mood on land-use planning reform.

Economic Costs of Limited Growth Management

There are, however, economic disadvantages to a limited growth-management approach, say environmental groups:

- Without *mandatory* growth-management measures (including growth boundaries) for almost all cities and counties, the Growing Smarter Plus plan lacks teeth to stop sprawl, possibly leading to higher infrastructure costs (e.g., roads, public services).[19]
- It could be confusing to planners, developers, and the public if some cities enact strict growth controls and others do not. For example, if Tempe and Chandler enact growth boundaries, but its neighbor Mesa does not, how will it affect issues such as planning and real estate values.?
- A number of provisions of Growing Smarter Plus are permissive, meaning it will be up to cities and counties how strictly they want to enforce growth controls.[20]

Growth Boundaries

The most frequently cited example of a growth boundary covering a major metropolitan area is in Portland, Ore. Called Metro, the regional urban growth boundary (UGB) was adopted in 1979 as part of a regional planning program and covers the urban portions of three counties covering 364 square miles (or 233,000 acres) that includes 24 cities. Metro's origins, however, date back to 1966 when the communities of this region joined together to consider the future urban growth. The end product of that effort was the start of a regional planning program in 1971. Two years later, the citizens of Oregon adopted statewide planning goals, which mandated growth boundaries for every community in Oregon.

Oregon's UGB's, which mark the separation between rural and urban land, were designed to encompass an adequate supply of buildable land (e.g., roads, sewers, street lights) to accommodate expected growth over 20 years. As population and employment increases, Oregon urban growth areas (e.g., Metro) can expand and adjust the growth boundary every five years through a number of administrative processes.[21]

A number of other states (primarily on the East and West coasts), as well as dozens of counties and cities (primarily in California), have passed legislation in the past decade requiring local communities to adopt mandatory growth boundaries or growth-management plans. Some of the states (e.g., Washington, Tennessee) have legislation that is similar in concept to Oregon's law, but vary according to restrictions and length of time that they must or can be updated.

In Arizona, the Sierra Club initiative would *require* individual counties or cities (not groups of counties, like in Portland) with a population greater than 2,500 to designate urban boundaries, beyond which zoning density cannot increase, to accommodate 10 years of population growth. An exception to the growth boundary could occur for projects less than 20 acres, if a governing body of a city or county approved by a fourth-fifths margin.[22] For exceptions greater than 20 acres or to amend the plan (and growth boundaries), voter approval would be required.

So, there is a major difference regarding growth boundaries between Oregon's law and the proposed Sierra Club initiative. In Oregon, a bureaucratic entity (such as Metro) can adjust the growth boundary every five years by an administrative act. In Arizona, only projects less than 20 acres could be approved administratively (by a four-fifths margin) by a governing board. However, growth boundaries in Arizona could be changed more frequently through the ballot box. The Sierra Club initiative allows a city or county to amend a growth-management plan (e.g., growth boundary) if approved by a governing board and voters, or by voters alone through an initiative process. Both instances must occur when there is a city or county general election, which is usually once a year.

Table 4

Major Provisions of Growing Smarter Plus and Citizens Growth Management Initiative

Growing Smarter Plus

- √ Require cities and counties with a population greater than 10,000, or growing at a rate of 2 percent annually the past decade, to seek voter approval of general plans at least once every 10 years.
- √ Allowing counties to impose development fees and give them the authority to ensure that lot splits comply with local zoning laws.
- √ Prohibit cities from annexing land unless municipal services could be provided within 10 years.
- √ Establishing a process where landowners can appeal private-property rights issues.
- √ Create a conservation trust that, if approved by Arizona voters in November and OK'd by Congress, would allow the state to set aside up to 3 percent of state-owned land (270,000 acres) for preservation.

Citizens Growth Management Initiative

- √ Require cities or counties with a population of 2,500 or more to adopt a growth-management plan and specify 10-year "growth boundaries" beyond which development could not occur, except for projects less than 20 acres that are approved by four-fifths of a governing board.
- √ Require voter approval of amendments to a growth-management plan and for projects 20 acres or greater that have been granted an exception by a governing board.
- √ Require developers to pay the full cost of public services (e.g., roads, utilities, police) of new developments, unless it falls within an infill-incentive area (see Table 2).
- √ Require policies that protect air and water quality that meet state and federal environmental standards, ensure adequate supplies of water, and promote multiple forms of mass transportation.
- √ Give county boards of supervisors the power to adopt ordinances and regulations governing land divisions in unincorporated areas.

Other Economic Issues of Growth Management

One of the largest economic benefits from a mandatory growth-management plan or growth boundaries, proponents say, is the tax savings from runaway infrastructure costs. “Sprawling suburbs may be cheaper in the short-term for individuals and families who buy houses in new communities, but their ‘hidden’ costs may ultimately be passed on to taxpayers in a variety of ways,” said a coalition of California business, environmental, and social-welfare groups in a 1995 report.[23]

Among the “hidden” costs are: building and maintaining highways and other infrastructure improvements; dealing with social problems in older neighborhoods that are neglected or abandoned; and environmental problems (e.g., air and water pollution, endangered species) caused by the development of “virgin land on the metropolitan fringe.”[24]

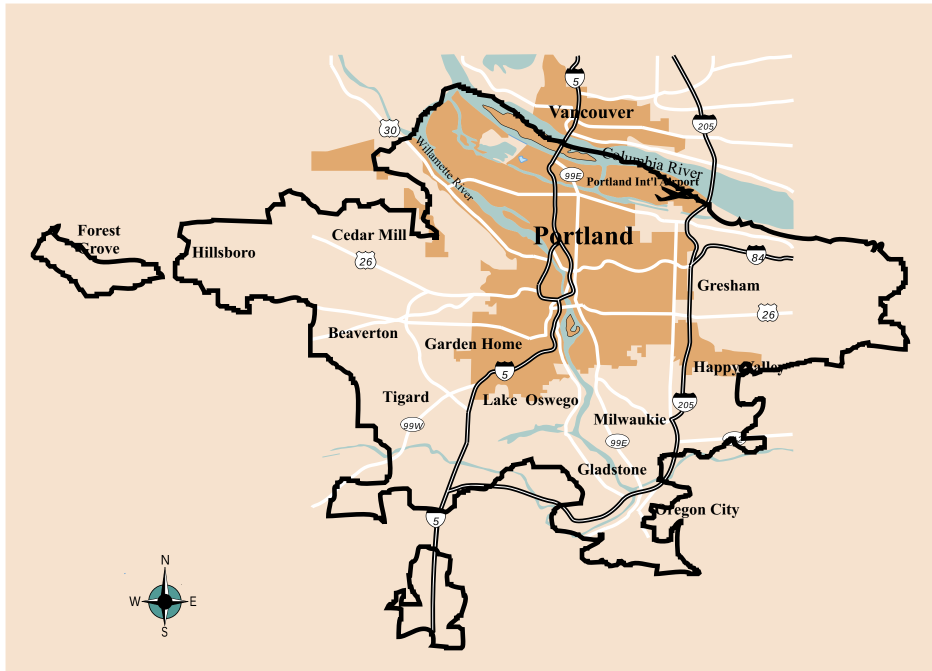
Of these, the air pollution issue has become a major point of contention for critics of Portland’s growth boundary. To offset a fast-growing population, Metro has had to push for heavy infill and higher-density neighborhoods. That, critics says, has led to higher volumes of traffic, more congestion, and more pollution.

“Air pollution is *greater*, not less, in a compact city,” said an article by the Heritage Foundation.[25] The author of the article, Wendell Cox, pointed to a study developed for the U.S. Department of Transportation by Texas A&M University that associates higher densities of population with higher pollution. With the exception of a few high-density areas in the country (e.g., Manhattan, Chicago Loop), there was increased traffic,[26] the author said. “The higher concentrations of employment and residences therefore must bring an increase in automobile trips in the area. This will strain road space, slowing traffic and increasing pollution as a consequence.”[27]

One of the major arguments against a growth boundary is that because it

Figure 2

The Portland-Area Metro Region and Growth Boundary (Dark Black Line)



arbitrarily limits the amount of land available for development, it artificially drives up the cost of land (particularly closer to the edge of the boundary). That it turn drives up the cost of real estate, making it more difficult for low- and moderate- income earners to buy a home or rent an apartment, or businesses trying to expand or relocate.

One statistic often used to show the higher costs produced by growth boundaries is the Housing Opportunity Index (HOI). Over the past several years, the annual HOI index ranked Portland and Eugene, Oregon, among the worst cities for housing affordability, slightly above the least affordable city, San Francisco.

Produced by the National Association of Home Builders, the HOI ranks metro areas based on the percentage of homes in an area that a family making the median household income could afford to buy.[28] For example, the Phoenix-Mesa metro area ranked 86th in housing affordability among 186 metro areas in the 3rd quarter of 1999, with 70.7 percent of the homes affordable to families making the area’s median family income ($52,200).[29] On the other hand, despite nearly the same median family income ($52,400), the Portland metro area ranked 163rd in affordability, with only 45.8 percent of the homes within reach of an average family.[30] The difference — the Portland metro area’s median sales price for a single-family home was $161,000 vs. $128,000 for the Phoenix-Mesa MA.[31]

But recent HOI surveys may have some flaws, said an editorial in a Willamette, Ore., newspaper. For example, the 1998 survey was based on 1990 census data and didn’t reflect the area’s prosperity during the 1990s, the editorial said.[32] Secondly, Portland, Seattle, and Salt Lake City each had the same income-to-housing price ratio, with each city having a median household income that was 31 percent of the median home price.[33] Yet Seattle ranked 32 spots and Salt Lake City, 22 spots, ahead of Portland on the affordability scale. An official of the home builders association attributed the difference to the distribution of sales prices, the Willamette newspaper said.[34] Portland had more homes at the high end of the scale, while Salt Lake City and Seattle had a higher percentage of homes in the more affordable range.

Among other weaknesses in the HOI, critics cited, was that it used 1990 property tax data and it didn't take into account Oregon's lack of a sales tax, thereby underestimating available income.[35] Also, "it doesn't account for Oregon buyers who can make larger than assumed down payments on new houses because of the rising resale value of their old homes."[36]

Whether the HOI data show growth boundaries cause higher prices is only one of many hotly-debated issues, however.

An analysis by the Reason Public Policy Institute pointed to other "unintended negative impacts on housing" from growth boundaries.[37]

Among these were:

- a 74 percent drop in housing production in Napa County, Calif., when strict growth controls were implemented, "creating an effective countywide urban-growth boundary";
- an increase of housing density in the Portland, Ore., Metro region from five homes per acre to eight homes per acre, with multifamily housing units (apartments) making up about half of all the new building permits;
- encouraging consumers to buy larger homes with fewer open-space amenities such as private yards;
- creation of new special-interest groups that will oppose growth-boundary expansion, including high-income "hobby farmers" who want to protect their rural lifestyle.

"Reduced congestion, better air quality, lower taxes," said the *Reason* article. "No wonder Portland has gotten great national press and praise. There's only one little problem: Metro's own data say the plan is doomed to failure."[38]

As one example, the *Reason* article said that despite a modest reduction in auto usage — from 92 percent of urban trips to 88 percent — the fact that population will increase by 75 percent over the next 50 years, will mean that traffic congestion will triple or quadruple and that air pollution will increase.[39]

Responding to critics that say that its growth boundary discourages growth, an official report by Metro responds: "State law prohibits Metro from limiting growth through development moratoriums and in fact requires ... a 20-year supply of buildable land inside the urban growth boundary at all time. What Metro is attempting to do is plan for and manage the growth that is already expected to occur in the region under expected conditions."[40]

At this time, local real estate analysts can only offer a best guess as to what growth boundaries would do to the state's economy. Other than Portland, Ore., and a few small cities in northern California, there is little hard data on what growth boundaries have done to the real estate market, let alone an area's overall economy.

Elliott D. Pollack, a Phoenix-area real estate developer and economist, predicts in a report that the Sierra Club initiative will lead to at least 10,000 fewer homes being built annually in Arizona, or a drop about 25 percent from 1999 levels, with a fiscal impact of more than $12 billion to the state's economy (based on 1999 dollars).[41] The loss of jobs statewide would also be substantial, said Pollock. Based on the 10,000 decline in single-family building per-

Table 5

Potential Economic Benefits and Costs of Growth Boundaries

Potential Benefits

- √ Lower taxpayer costs because of less new infrastructure needed for new suburbs.
- √ Sprawl can be better managed because developers not allowed to bunny-hop subdivisions.
- √ Leads to higher-density development, which is more suitable for mass transit.
- √ Saves cost of repairing environmental damage due to destruction of pristine desert or eco-systems.

Potential Costs

- √ Rapidly increasing housing prices as land becomes scarce, which will in turn lead to layoffs in construction and related industries.
- √ dramatic infrastructure shortfalls as sewer, water, school and other systems designed for low-density cities must be rebuilt of higher densities.
- √ Disappearing urban open spaces such as parks and golf course as developers turn them into residential and other developments.
- √ Significant increase in highway congestion – while higher population density may slightly reduce per-capita driving, it increases congestion and pollution.

mits, Pollack estimates that about 35,000 jobs (or job man-hours) will be lost annually over the next 10 years. About half of those jobs will be in construction, with the other half divided fairly equally between indirect and induced effects of the construction decline (i.e., jobs related to people selling supplies and materials to the construction industry, and additional jobs created by money running through the economy (e.g., the multiplier effect)).

Pollack's estimate is primarily based on an assumption of higher land costs. And a housing analyst in Tucson, John Strobeck, also told a group of local builders that Pima County housing permits would fall 30 percent within four years of passage of the Sierra Club due to rising land values.[42]

Several economists agreed with that conclusion based on the Portland experience and some California cites with growth boundaries. But the authors of the *Reason* article were not sure by how much and added a cautionary note to their conclusions in a footnote. "Good data on land prices are difficult to obtain. ... Much of this information ... is drawn from very small or narrow samples."[43]

... the Sierra Club initiative will lead to at least 10,000 fewer homes being built annually in Arizona, or a drop about 25 percent from 1999 levels, ...

—Elliott Pollack,
Valley Economist and
Real Estate Developer

Notes:

1. Various articles including: "Transit Tax Foes Deride Light-Rail Plan," Mary Jo Pitzl, *The Arizona Republic*, March 10, 2000.
2. Sierra Club, Grand Canyon Chapter.
3. "Beyond Sprawl, New Patterns of Growth to Fit the New California," a report issued by Bank of America, Greenbelt Alliance, California Resources Agency, and Low Income Housing Fund, 1995.
4. Some of these costs found in higher property taxes may not affect Arizonans because of relatively low property taxes and the fact that costs of school construction are now being funded at the state level.
5. "Beyond Sprawl, New Patterns of Growth to Fit the New California," a report issued by Bank of America, Greenbelt Alliance, California Resources Agency, and Low Income Housing Fund, 1995.
6. "Prove It — The Costs and Benefits of Sprawl," Peter Gordon and Harry W. Richardson, *Brookings Review*, Fall 1998, p. 23.
7. Ibid.
8. Ibid; also, it should be noted that the authors are correct about increased agricultural production, but it's due more to the advances of corporate farming and technology, not farmers. The farming occupation has been on the decline probably since the period when cropland peaked in the 1930.
9. Ibid; also, "The President's New Sprawl Initiative: A Program in Search of a Problem," Wendell Cox, The Heritage Foundation Backgrounder, March 18, 1999, p. 9.
10. "Prove It — The Costs and Benefits of Sprawl," Peter Gordon and Harry W. Richardson, *Brookings Review*, Fall 1998, p. 24.
11. Ibid.
12. Ibid.
13. "Planning Communities for the 21st Century," American Planning Association, p. 2.
14. Ibid.
15. Ibid, pgs. 3, 5.
16. Ibid, p. 4.
17. Ibid, p. 1.
18. "Plans target sprawl, but take different routes," Kathleen Ingley, *The Arizona Republic*, Internet Edition, Feb. 14, 2000.
19. "Growth plan isn't 'toothless' - Cities, counties get extra clout, Hull says," Kathleen Ingley, *The Arizona Republic*, Internet Edition, Feb. 18, 2000.
20. "Hull plan aims to cut down on sprawl - Land protection included in bill," Howard Fischer, Capitol Media Services, printed in *The Arizona Daily Star*, Internet Edition, Feb. 11, 2000.
21. "The President's New Sprawl Initiative: A Program in Search of a Problem," Wendell Cox, The Heritage Foundation Backgrounder, March 18, 1999, p. 5.
22. "Can an urban growth boundary be changed?" as part of a report titled, "Metro at a glance," published by Metro, Portland, Ore., at Internet site: http://www.metro.dst.or.us/glance/glance.htm.
23. Citizens for Growth Management Initiative, Section 11-1605, "Authorization to Grant Exceptions; Approval of Exceptions," Part C.
24. "Beyond Sprawl: New Patterns of Growth to Fit the New California," a report issued by Bank of America, Greenbelt Alliance, California Resources Agency, and Low Income Housing Fund, 1995.
25. Ibid.
26. "The President's New Sprawl Initiative: A Program in Search of a Problem," Wendell Cox, The Heritage Foundation Backgrounder, March 18, 1999.

(continued on page 19)

Nonfarm Jobs Grew 4.8 Percent Over the Year

Arizona's civilian labor force underwent an expected seasonal decline during the first quarter of 2000. The labor force reduction totaled 22,600, or nearly one percent. The labor force growth since the first quarter of 1999 was 3.1 percent, down from last year's relatively high growth rates. Arizona's seasonally adjusted unemployment rate averaged 4 percent during the quarter, nearly matching the national rate of 4.1 percent for the same period.

ARIZONA'S WORKFORCE — 1ST QTR. 2000

Total nonfarm employment, which usually declines during the first quarter of each year, posted a slight gain of 2,900. Nonfarm employment was up 4.8 percent (101,700) over the first quarter of 1999, above the 10-year average year-to-year growth of 3.9 percent. This growth was largely due to substantial gains in service-producing industry employment, particularly trade and services. Arizona continues to be one of the fastest job-growth states in the nation.

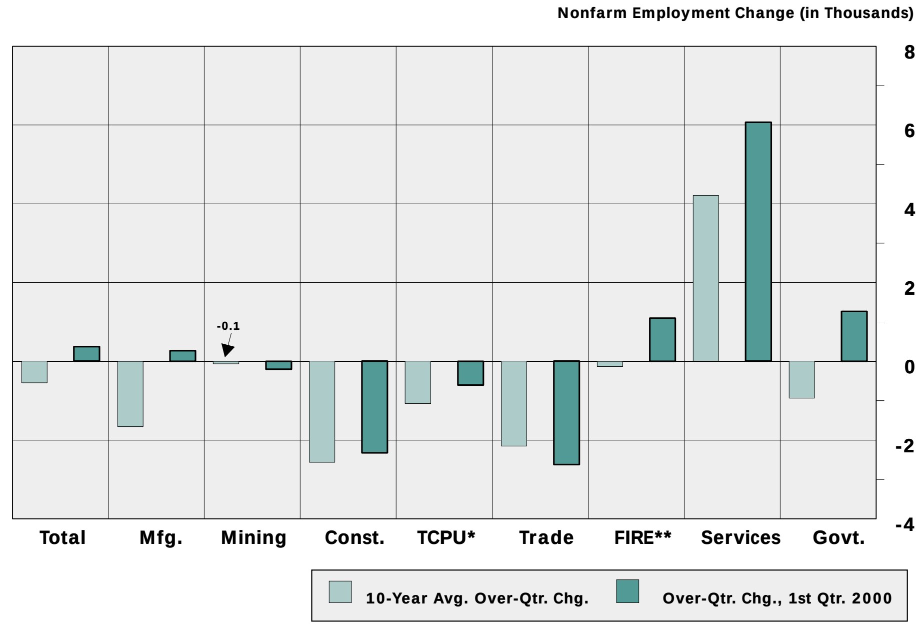
Manufacturing employment showed unusual growth during the first quarter. From January to March, manufacturing jobs increased by 300, instead of exhibiting normal declines. Growth was driven by increases in machinery (800 jobs) and aircraft and missiles (600 jobs), both of which countered losses in other areas. Industry employment was up 1.6 percent over first quarter 1999, posting the first over-the-year gain since the unfurling of the Asian economic crisis at the end of 1998.

Arizona mining employment continued to decline during the quarter, despite higher copper prices and declining copper inventory worldwide. Mining employment was down more than 20 percent over the year, due to

(continued on back page)

Figure 1

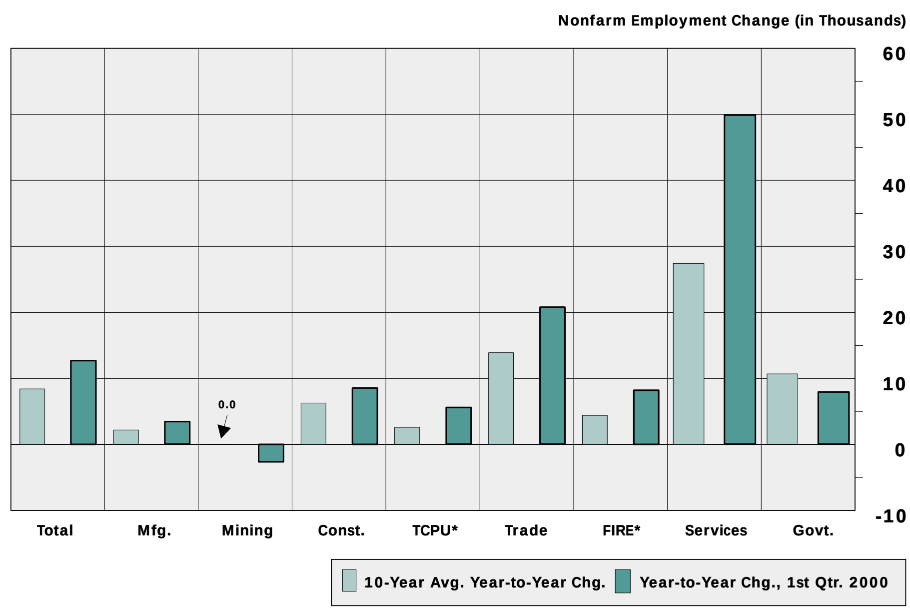
Quarterly and 10-Year Average Quarterly Change in Arizona Major Industry Employment, 1st Qtr. 2000[1]



* Transportation, Communications, and Public Utilties
** Finance, Insurance, and Real Estate

Figure 2

Over-the-Year Change and 10-Year Over-the-Year Change in Arizona Major Industry Employment, 1st Qtr. 2000[1]



* Transportation, Communications, and Public Utilties
** Finance, Insurance, and Real Estate

Source: Arizona Department of Economic Security, Research Administration, and U.S. Bureau of Labor Statistics, June 2000

Table 1

Arizona Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change, 1st Qtr 1999-1st Qtr 2000(1)

(in Thousands)

	99/1	99/2	99/3	99/4	00/1	10-Year Avg. of Qtr. 1 Changes
Civilian Labor Force	**2,305.1**	**2,356.9**	**2,393.8**	**2,399.0**	**2,376.4**	
Quarterly Change	0.0%	2.2%	1.6%	0.2%	-0.9%	-0.3%
Annual Change	5.2%	5.3%	4.8%	4.1%	3.1%	3.0%
Total Employment	**2,211.3**	**2,249.2**	**2,273.5**	**2,304.2**	**2,290.8**	
Quarterly Change	0.1%	1.7%	1.1%	1.3%	-0.6%	-0.1%
Annual Change	4.8%	4.7%	4.4%	4.3%	3.6%	3.2%
Total Nonfarm Payroll Employment	**2,122.3**	**2,154.1**	**2,143.2**	**2,221.1**	**2,224.0**	
Quarterly Change	-0.4%	1.5%	-0.5%	3.6%	0.1%	-0.3%
Annual Change	3.9%	4.2%	4.2%	4.2%	4.8%	3.9%
Manufacturing	**209.5**	**211.2**	**212.1**	**212.6**	**212.9**	
Quarterly Change	-2.1%	0.8%	0.4%	0.3%	0.1%	-0.9%
Annual Change	-2.6%	-2.8%	-2.6%	-0.6%	1.6%	1.2%
Mining and Quarrying	**12.5**	**12.8**	**10.3**	**10.1**	**9.9**	
Quarterly Change	-1.8%	2.4%	-19.5%	-2.3%	-2.0%	-0.5%
Annual Change	-4.6%	-2.0%	-19.5%	-20.9%	-21.0%	0.6%
Construction	**147.7**	**153.5**	**158.4**	**158.6**	**156.3**	
Quarterly Change	-1.8%	3.9%	3.1%	0.2%	-1.5%	-2.7%
Annual Change	8.8%	8.3%	7.7%	5.4%	5.8%	6.1%
Transportation, Communications, and Public Utilities	**100.5**	**103.2**	**104.4**	**106.7**	**106.1**	
Quarterly Change	-3.0%	2.7%	1.2%	2.2%	-0.6%	-1.2%
Annual Change	2.4%	2.9%	2.8%	3.0%	5.5%	3.1%
Finance, Insurance, & Real Estate	**136.0**	**138.8**	**140.8**	**143.1**	**144.2**	
Quarterly Change	-2.3%	2.1%	1.5%	1.6%	0.8%	-0.1%
Annual Change	2.6%	2.7%	3.7%	2.9%	6.1%	4.1%
Trade	**502.5**	**510.3**	**506.7**	**525.9**	**523.2**	
Quarterly Change	-1.6%	1.6%	-0.7%	3.8%	-0.5%	-0.5%
Annual Change	1.6%	3.1%	3.1%	3.0%	4.1%	3.3%
Services and Miscellaneous	**657.0**	**676.4**	**683.7**	**700.8**	**706.8**	
Quarterly Change	2.3%	3.0%	1.1%	2.5%	0.9%	0.8%
Annual Change	8.2%	8.2%	8.5%	9.1%	7.6%	5.6%
Government	**356.7**	**347.9**	**326.8**	**363.3**	**364.6**	
Quarterly Change	-0.6%	-2.5%	-6.1%	11.2%	0.3%	-0.3%
Annual Change	2.7%	2.6%	1.9%	1.2%	2.2%	3.6%

Notes: 1) Detailed industry data may not add up exactly due to averaging.
NA = Not Available
See Table 3 for Source

Table 2

Phoenix-Mesa Metropolitan Area Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change, 1st Qtr 1999-1st Qtr 2000[1][2]

(in Thousands)

	99/1	99/2	99/3	99/4	00/1	10-Year Avg. of Qtr. 1 Changes
Civilian Labor Force	**1,541.8**	**1,567.9**	**1,588.8**	**1,601.1**	**1,588.4**	
Quarterly Change	0.3%	1.7%	1.3%	0.8%	-0.8%	-0.3%
Annual Change	6.1%	5.8%	4.9%	4.2%	3.0%	3.0%
Total Employment	**1,495.7**	**1,519.1**	**1,537.1**	**1,555.6**	**1,545.6**	
Quarterly Change	0.2%	1.6%	1.2%	1.2%	-0.6%	-0.1%
Annual Change	5.6%	5.1%	4.6%	4.3%	3.3%	3.2%
Total Nonfarm Payroll Employment	**1,498.2**	**1,520.0**	**1,514.0**	**1,566.0**	**1,565.3**	
Quarterly Change	-0.3%	1.5%	-0.4%	3.4%	0.0%	-0.2%
Annual Change	4.7%	4.8%	4.5%	4.3%	4.5%	4.3%
Manufacturing	**164.7**	**165.0**	**164.9**	**164.5**	**164.3**	
Quarterly Change	-1.9%	0.1%	-0.1%	-0.2%	-0.2%	-0.4%
Annual Change	-2.5%	-3.3%	-3.4%	-2.0%	-0.3%	1.5%
Mining and Quarrying	**5.2**	**5.4**	**3.0**	**2.9**	**2.8**	
Quarterly Change	-3.1%	4.5%	-44.2%	-4.4%	-2.3%	2.1%
Annual Change	-10.3%	-4.1%	-43.8%	-46.0%	-45.5%	2.6%
Construction	**108.7**	**112.8**	**116.0**	**116.0**	**114.2**	
Quarterly Change	-1.8%	3.8%	2.9%	-0.1%	-1.5%	-2.5%
Annual Change	9.1%	8.8%	7.6%	4.8%	5.1%	6.7%
Transportation, Communications, and Public Utilities	**76.7**	**79.0**	**80.0**	**82.1**	**81.6**	
Quarterly Change	0.3%	3.0%	1.2%	2.6%	-0.6%	-1.1%
Annual Change	6.2%	7.5%	7.7%	7.3%	6.4%	3.9%
Finance, Insurance, & Real Estate	**115.8**	**117.9**	**119.8**	**121.6**	**122.7**	
Quarterly Change	-1.6%	1.9%	1.6%	1.5%	0.9%	0.3%
Annual Change	4.5%	4.5%	4.6%	3.4%	6.0%	4.6%
Trade	**358.7**	**364.1**	**361.8**	**375.5**	**373.8**	
Quarterly Change	-1.4%	1.5%	-0.6%	3.8%	-0.5%	-0.7%
Annual Change	2.3%	3.7%	3.7%	3.3%	4.2%	3.6%
Services and Miscellaneous	**478.6**	**490.7**	**496.1**	**510.3**	**514.1**	
Quarterly Change	2.5%	2.5%	1.1%	2.9%	0.7%	0.9%
Annual Change	9.0%	8.8%	8.8%	9.3%	7.4%	6.2%
Government	**189.9**	**185.1**	**172.4**	**193.1**	**191.8**	
Quarterly Change	-1.7%	-2.5%	-6.9%	12.0%	-0.7%	-0.8%
Annual Change	3.1%	1.9%	0.5%	-0.1%	1.0%	3.4%

Notes: 1) Detailed industry data may not add up exactly due to rounding.
2) The introduction of Pinal County into the Phoenix-Mesa Metropolitan Area (formerly consisting of only Maricopa County) has created an inconsistency in the mining employment data beginning in 1990.
See Table 3 for Source

Table 3

Tucson Metropolitan Area Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change, 1st Qtr 1999-1st Qtr 2000(1)(2)

(in Thousands)

	99/1	99/2	99/3	99/4	00/1	10-Year Avg. of Qtr. 1 Changes
Civilian Labor Force	**374.6**	**382.1**	**387.2**	**394.3**	**395.8**	
Quarterly Change	0.3%	2.0%	1.3%	1.8%	0.4%	-0.1%
Annual Change	2.6%	3.5%	5.2%	5.6%	5.7%	2.3%
Total Employment	**364.5**	**371.7**	**373.0**	**380.9**	**383.6**	
Quarterly Change	-2.4%	2.0%	0.3%	2.1%	0.7%	0.1%
Annual Change	-0.1%	0.6%	1.4%	2.0%	5.2%	2.5%
Total Nonfarm Payroll Employment	**329.2**	**335.2**	**331.2**	**346.1**	**350.5**	
Quarterly Change	-0.5%	1.8%	-1.2%	4.5%	1.3%	0.0%
Annual Change	1.8%	2.9%	3.6%	4.6%	6.5%	2.8%
Manufacturing	**28.6**	**29.9**	**31.1**	**32.1**	**32.8**	
Quarterly Change	-1.6%	4.6%	4.2%	3.1%	2.2%	-0.3%
Annual Change	0.1%	3.0%	5.4%	10.6%	14.8%	0.0%
Mining and Quarrying	**2.1**	**2.0**	**1.8**	**1.8**	**1.8**	
Quarterly Change	-1.6%	-3.2%	-8.3%	-1.8%	0.0%	1.0%
Annual Change	-6.1%	-9.1%	-14.1%	-14.3%	-12.9%	0.4%
Construction	**20.2**	**21.4**	**22.2**	**22.4**	**22.1**	
Quarterly Change	0.8%	5.6%	4.1%	0.9%	-1.3%	-2.1%
Annual Change	5.4%	8.6%	10.4%	11.8%	9.4%	3.3%
Transportation, Communications, and Public Utilities	**11.7**	**11.9**	**12.3**	**12.3**	**12.3**	
Quarterly Change	-14.8%	1.7%	3.7%	0.0%	-0.3%	-1.4%
Annual Change	-13.4%	-13.0%	-12.1%	-10.2%	5.1%	2.9%
Finance, Insurance, & Real Estate	**12.6**	**12.9**	**13.1**	**13.6**	**13.6**	
Quarterly Change	-7.6%	2.6%	1.5%	3.6%	-0.2%	-2.0%
Annual Change	1.3%	0.8%	0.5%	-0.2%	7.7%	1.0%
Trade	**69.4**	**70.6**	**70.0**	**73.2**	**73.4**	
Quarterly Change	-2.3%	1.7%	-0.9%	4.7%	0.3%	-0.5%
Annual Change	-1.2%	1.6%	2.2%	3.1%	5.8%	1.9%
Services and Miscellaneous	**110.3**	**113.2**	**113.1**	**115.0**	**117.6**	
Quarterly Change	3.2%	2.6%	-0.1%	1.7%	2.3%	1.2%
Annual Change	6.1%	6.6%	6.4%	7.6%	6.7%	4.4%
Government	**74.4**	**73.5**	**67.5**	**75.6**	**76.9**	
Quarterly Change	0.1%	-1.3%	-8.1%	12.0%	1.8%	0.1%
Annual Change	1.6%	0.7%	2.0%	1.7%	3.3%	3.1%

Notes: 1) Detailed industry data may not add up exactly due to averaging.
2) Tucson Metropolitan Area includes all of Pima County.

Source: *Arizona Department of Economic Security, Research Administration, and U.S. Bureau of Labor Statistics, June 2000*

Phoenix Metro Area

Manufacturing

A Tacoma, Wash.-based maker of window panes could "open up" employment **opportunities** for **several hundred** people in **Tempe** over the next several years. **Milgard Manufacturing, Inc.**, a 40-year-old private company, expects to open a **sales and distribution office in May** and a **manufacturing operation in late 2000**. Milgard, which has manufacturing facilities in several western states, will lease 60,000 square feet near Kyrene and Carver roads. The company will **initially** hire a **staff of about 20** for the sales and distribution business, then **add another 80** for the manufacturing facility.

One-year-old **MyPlant.com**, a Web site which sells products used to **manage industrial buildings** (e.g., automated controls), is moving its **corporate headquarters** to the Kierland development in **northeast Phoenix**. A subsidiary of Honeywell International, MyPlant.com expects **employment to grow from 100 to 250** within the next year to 16 months. Currently, MyPlant.com operates out of several Honeywell facilities in the Valley. Morristown, N.J.-based Honeywell expects to spend $10 million to increase staffing and pay for rental of 27,000 square feet of office space.

Eclipse Aviation Corp. is **moving** its aircraft manufacturing operation — and a potential 2,000 new jobs by 2007 — from Scottsdale **to Albuquerque**. A $20 million tax and employment incentive from the state of New Mexico was successful in luring the maker of corporate jets to Albuquerque from the Scottsdale Airpark.

Seeking a quick solution to expand its chip-making capacity, Chandler-based **Microchip Corp. abandoned plans** to build a **$1 billion fabrication plant** in the Valley city. Instead, Microchip will buy an existing vacant plant in Washington state. The change of plans will **cost Chandler 1,000 jobs** (primarily technicians), but Chandler officials believe that eventually the maker of microcontrollers for a variety of electronic products will build a similar-size plant next to a new corporate headquarters currently being built. Most of Microchip's administrative and engineering operations are located in Chandler and Tempe.

Spurred by favorable patent judgments, Chandler-based **Durel Corp.** expects to **double** the size of its **workforce and manufacturing facilities** within the next six months. The 12-year-old company, which makes electroluminescent lighting products, was awarded more than $63 million by a U.S. District Court in Phoenix because of patent infringements by Sylvania Corp. that cost Durel more than $100 million in business the past six years. Durel said it plans to **hire up to 300 workers** — including production specialists, engineers, customer-service representatives, and marketing specialists — and expand its plant size from 75,000 to 143,000 square feet by the end of the year.

The Phoenix-area's **two largest daily newspapers were purchased** in separate transactions in late June. The state's largest daily, ***The Arizona Republic,*** was snatched up by media giant Gannett Corp. — publisher of *USA Today* and 89 daily newspapers — as part of a $2.8 billion purchase of parent company Central Newspapers, which also publishes *The Indianapolis Star*. Gannett already owns *The Arizona Daily Star* in Tucson, Channel 12 in Phoenix, and several other Arizona papers. At the same time, **Freedom Communications Inc.** of Costa Mesa, Calif., **purchased** the east Valley's largest newspaper, ***The Tribune***, from Thomson Corp., along with several other Arizona daily and weekly papers, including the Sun City *Daily News-Sun* and the *Yuma Daily Sun*. No layoffs were announced at the time of either purchase, although there could eventually be some administrative cuts at Central Newspapers' headquarters in Phoenix.

Construction

Plans for construction of two natural gas-fired **power plants** near **Gila Bend** is **spurring development** in the sleepy hamlet 50 miles southwest of downtown Phoenix. The prime target for development are 35,000 acres of the 68,000-acre Paloma Ranch. Already investors have bought 320 acres for a **water-ski park** 17 miles north of Gila Bend; 209 acres for **Diamond Lake Ranch**, a mixed-use development featuring 200 homes, retail shops, an RV park with 800 spaces, and 35 acres of lakes; a 500-acre **tree and plant nursery**; and a **new hotel**.

Transportation, Communications, and Public Utilities

The **exploding demand for communication services** such as the Internet, cellular phones, and high-speed data transfer is fueling a similar **demand for software and hardware engineers, network specialists, and technicians** to build the infrastructure to support these products. One part of that infrastructure is "telco hotels," which are usually former office buildings that have been converted to hold the equipment (e.g., computer servers, fiber-optic networks) used for these services. In the Valley, **four new telco hotels are planned**, on top of three existing ones. One facility would be built in the basement of the former Galleria mall in downtown Scottsdale. Along with office space on the first through third floors and retail shops on the south side of the building, the newly named **Technology Center of** Scottsdale is expected to be **home to 1,500 employees**. Another area of growth is in customer-support technicians needed to hook up homes for high-tech services. Phoenix-based **CDI Telecommunications** recently announced it will open a **450-employee Tempe center** where it will consolidate three other Valley operations. One of CDI's major customers is USWest, which is expanding its consumer products to include high-speed data and video capabilities. Currently, CDI has about 400 employees.

A Phoenix-area firm that builds wireless and fiber-optic communication systems for major telecommunication companies (e.g., AT&T, Sprint) is **consolidating its four Valley operations** at a northeast Mesa industrial park. **Communication Services Inc. (CSI)** — which expects its national workforce to expand from 100 to 500 (with about **100 new jobs in the Phoenix area**) in the next few years — is building a 57,000-square-foot corporate office at the **Dover Industrial Park**, Greenfield and McDowell roads. CSI also has offices in several western U.S. cities.

Finance, Insurance, and Real Estate

VenServe, a California company that **sets up financing for businesses' large purchases**, will **locate** several of its operations in **Tempe**. Based in the L.A. suburb of Agoura Hills, VenServe will operate its **data storage, human resources, customer service, and direct sales units** in a 20,000-square-foot building at 2626 S. Roosevelt St. The company expects to **employ between 140 and 160 people** — primarily in clerical, customer service, and sales positions — by **2003**. One reason three-year-old VenServe chose Tempe was the company's close working relationship with computer-equipment reseller Insight Enterprises Inc., which is based in the east Valley city.

Up to **300 customer-service jobs** will be created by the opening of **40 full-service branch offices** of **Washington Mutual**, a Seattle-based bank that specializes in home loans. The east Valley cities of Chandler, Tempe, Mesa, and Scottsdale are expected to be the greatest beneficiary of the expansion, which will feature offices that resemble the inside of retailers like The Gap or Nordstrom, with kiosks spread throughout the branch. The **first branches** are expected to **open** in the **first quarter of 2001**.

Trade

Despite what one grocery executive called an "overbuilt" market, the **Phoenix metro area** will continue to see rapid growth of **supermarkets this year**, including "mega-stores" that offer up to 200,000 square feet of shopping. Plans call for the state's largest privately-owned chain, **Bashas'**, to open stores this year at **Gold Canyon Ranch** (Apache Junction) and **40th Street and Thunderbird** in Phoenix; the Kroger Co. of Cincinnati, which owns Fred Meyer and Fry's, will open **two new Fry's** locations this year; **Safeway** will **add three** Valley stores in 2000, one each in **Scottsdale, Sun City**, and the **Anthem community** north of Phoenix near Interstate 17; **Albertson's** will **open four** Valley stores in 2000 (**Gilbert, Peoria, Mesa, and northeast Phoenix**) and start work on a fifth in Chandler; and **Wal-Mart** expects to open a "supercenter" at **40th Street and Thomas** in Phoenix this year, with plans to start building another near Falcon Field in Mesa.

Stock up on antacids as **two spicy restaurant chains** are invading the Phoenix metro area. In early May, Southwest fast-food chain **Taco Cabana** opened in Goodyear the first of **15 to 20** planned **Valley locations**. The Texas-based company, which specializes in Tex-Mex cuisine, has 120 restaurants in five states. And Michigan-based **BD's Mongolian Barbeque** recently **hired 100 workers** when it opened its first Valley restaurant on Mill Avenue in **downtown Tempe**. No information was available about possible future Phoenix-area locations.

Atlanta-based **InaCom Corp.**, which **employed about 700 people** at two Valley operations, has gone out of business. The computer hardware reseller and service company, which filed for Chapter 11 bankruptcy in mid-June, employed about 300 people at a Tempe call center and another 400 at a sales and technical service operation. Tempe-based MicroAge Corp., which has its own financial problems, could benefit from InaCom's demise.

Westcor Corp. of Phoenix, which recently began construction on the upscale 1.3 million-square-foot Chandler Fashion Center, **announced two new major Valley projects**. Scheduled to open in fall 2001 will be **Scottsdale 101**, a **30-store and restaurant shopping center** at Mayo Boulevard and the Loop 101 freeway that will also include a multiplex movie theater. But dwarfing that project will be the 1.4-million-square-foot **Gilbert Power Center** at Williams Field Road and the alignment of the San Tan Freeway. Expected to open in fall 2002, the **50-store and restaurant open-air shopping center**, along with a multiplex theater, will be the first of several projects on 517 acres. A regional mall larger than the power center is planned for a 2007 opening.

Services

Internet marketing company **What's For Free Technologies** expects to **double its current workforce of 70** by August when it moves into larger quarters at **Scottsdale Airpark**. Most of the **new jobs** will involve **customer service or technology development**. What's For Free, which will debut its website May 23, will attempt to provide corporations and organizations with a pathway for promotion of their products and services. The company will make money from advertising, fees from linked sites, market research, and sale of database information

Three hundred jobs are expected to be **created** by the opening of a **Brown & Brown Chevrolet dealership** near the Superstition Springs Mall in east Mesa. The 10-acre **facility**, slated to **open in August**, will be the second Chevrolet and fourth overall dealership for Brown & Brown, which is owned by national car retailer AutoNation.

Due to the **planned closure** of **three Mesa medical clinics**, about **half of Casa Blanca Medical Group's 500 employees** will lose their jobs by the **end of July**. Casa Blanca will shut down its three Mesa sites because of mass resignations by doctors over the past few months. Casa Blanca clinics in Gilbert and Apache Junction, however, will remain open, with some employees transferring to those operations. Increased patient volume, a drop in pay, and poor management were blamed for the doctors leaving the clinics, which are owned by Nashville-based PhyCor. Inc.

The rise of the Internet has spurred hundreds of new cottage industries, including online training. One of those dot-com training companies is **Scottsdale-based KnowledgeNet**, which recently received $33 million in venture capital and expects to **hire 180 additional workers this year** when it moves into new 55,000-square-foot offices. KnowledgeNet specializes in training for corporations, but also offers its services to universities and government.

Taking advantage of its dominance throughout the computer industry, **Intel Corp.** is **spinning off** a new Internet company called **DevelopOnline.com**. Expecting to **hire 100 people** by the **end of 2000**, the company will act as an online laboratory for piecing together parts for new products. For example, a start-up business could test whether a product it is designing will work with other existing products by building a virtual model of the proposed device. The electronic workshop is expected to shorten the time it takes to develop products from years to months. Develop-Online will move to offices at the **Centerpoint in Tempe** in September.

General Motors Corp. will **shut down** its **Desert Proving Ground** in east Mesa over the next 2½ years, **eliminating about 1,000 jobs** at the nearly 50-year-old hot-weather testing facility. Ironically, the automaker said the primary reason for the closure of the 5,000-acre site — and plans to relocate a portion of the testing facility's operations to a site three hours from Mexico City — was because temperatures were not "hot enough" in Arizona during the winter months. About 400 of the Desert Proving Ground's employees work directly for GM, while the remainder work for subcontractors. An official with the city of Mesa said the facility near Williams Gateway Airport and the planned San Tan Freeway will be turned into an industrial park.

The king of on-line discount brokerages, **Charles Schwab**, will fill an **additional 1,000 shareholder-service positions** in the next year, giving it a total of 3,000 in the Phoenix metro area. Despite more and more clients using the Internet to make stock trades, companies like Schwab still receive a significant number of telephone calls. San Francisco-based Schwab **recently began work** on a **computer-operations center** in Chandler, expected to open in 2001.

Fox Animation Studios had an unfairy tale-like ending when it **closed its Phoenix operations** in late June and **laid off** the remainder of its **60 employees**. The animation studio — which opened 6½ years earlier to challenge the Goliath of animation film, Disney — was unable to deliver a box-office hit in two tries, although it received critical acclaim for its first film, "Anastasia." Twentieth Century Fox Animation, which had laid off 260 of its 320 employees in February, will keep its "animation foot in the door," turning its New York-based Blue Sky Studios from a special effects facility into a computer-generate film animation studio.

Government

The **booming economy** is making it extremely **difficult** for **Valley law-enforcement agencies** to **fill positions**, according to a story in *The Arizona Republic*. The Phoenix Police Department and the Maricopa County Sheriff's Office are both facing severe shortages of qualified candidates. **Phoenix PD** currently has **110 vacancies**, while the **Maricopa County Sheriff's Office** will **need 1,600 deputies and jail guards** in the next four years to fill 800 new positions and 800 vacancies caused by retirements and resignations. And the **Arizona Department of Public Safety** needs **60 new officers** to maintain a minimum level of service, the state agency said.

The **Federal Reserve** has broken ground on a $13 million **currency operations center** at McDowell Road and 47th Avenue **in Phoenix**. The cash facility, which will store and distribute cash to Arizona banks, will be a first for the 87-year-old Federal Reserve. Up until now, currency operations have only been maintained at a Federal Reserve bank or one of its branches. Arizona currently has its cash shipped by truck from Los Angeles, a more time-consuming and costly service. When completed in September 2001, the facility is expected to **employ around 50** people.

Tucson Metro Area

Manufacturing

Aristocrat Technologies Inc., a maker of slot machines and video-gaming devices, will locate its **research and development unit** in Tucson. The Australian company will initially **hire 30 people** to design and develop gaming software, but that number is expected to **more than triple within three years**. No site for the company has been selected, but it expects to begin hiring within two to three months. Salaries will range from $35,000 for entry-level graphics workers to $75,000 for experienced engineers.

Universal Avionics, which has about 300 of its 510 employees in Tucson, said it expects to fill an unspecified number of **software-development positions** in the near future. Known for its "black box" flight recorders — which determine causes of plane crashes — Universal also produces computerized navigation systems and color instrument panels. The Redmond, Wash.-based company has increasingly been moving jobs to Tucson since bringing its manufacturing operations there two years ago.

A **company** that makes **custom aircraft interiors** is seeking **40 additional workers**, but is having a hard time finding them. **Bomhoff Inc.**, which also has an operation in Wichita, Kan., has grown from two to nearly 90 employees in its two years in Tucson. An aviation program at Pima Community College has been supplying many of the Bomhoff's new hires.

Cybernetic Research Laboratories expects to **add 100 skilled workers** in the **next two years** to make several products — cable, relay and ladder racks, and computer cabinets — for a New York manufacturer that specializes in producing computer hardware equipment. Tucson-based Cybernetic, which will immediately begin producing equipment for AFCO Systems, plans to have a new manufacturing facility within the next year to 15 months.

Vanguard Technical Solutions, which was awarded a $4.6 million contract to design and build an automated system for a medical-device manufacturer, is desperately seeking high-tech workers. The one-year-old company, which wants to **add 35 people** to its current workforce of 25, is seeking hardware and software engineers with experience in automation.

In order to be closer to its Nogales, Mexico, manufacturing facilities, **Walbro Engine Management moved** its **corporate headquarters** from Michigan **to Tucson** in mid-June. The international maker of engines for consumer gardening products **brought along most of its 100 administrative employees** from Cass City, Mich. Walbro's plant in Mexico, which employs 2,000 people, makes engines for products such as leaf blowers and chain saws.

Construction

Three **open-air retail centers**, each around 400,000 square feet, are in the works for the Tucson metro area. **Diamond Ventures Inc.** of Tucson plans to build two of the outdoor malls — **Steam Pump Village in Oro Valley** (Oracle and First Avenue) and **River Crossing** at River Road and La Cholla Boulevard. **Westcor Partners** of Scottsdale has proposed to build an as-yet **unnamed retail complex** at Campbell and Skyline, but faces opposition by a neighborhood coalition and the Pima County Board of Adjustment. Work on both of the Diamond projects — which will include Harkins multiplex theaters, restaurants, retail shops, offices, and other entertainment features in a pedestrian-friendly setting (e.g., 12-foot-wide sidewalks) — is **scheduled to begin early in 2001** and be **completed by the end of the year**. Steam Pump Village, which will also include a 250-room hotel, will use a "Main Street" theme throughout the shopping plaza. River Crossing, which will be built in three phases, will have a modernistic look. Westcor will have a tougher road to gain approval for its retail center that would include specialty stores, upscale restaurants, and a high-end grocery store in a setting that resembles St. Phillip's Plaza in Tucson. Nearby residents believe the development would create traffic problems, and tough zoning requirements could limit the size of the project.

The sleepy village of **Sahuarita**, 25 miles south of Tucson, is slowly being transformed into a thriving modern community. Work began last year on the first phase of a **2,800-acre development** called **Rancho Sahuarita**, which **could eventually contain up to 10,000 homes**. Also planned are retail shops, a town center with municipal offices, recreational facilities, and walking trails. The first phase of the project, an adult community called **Rancho Resort**, includes **1,800 manufactured homes** on 200 acres. More than 160 building permits were issued in 1999, and the pace of selling has picked up this year. **Commercial development** is also part of Rancho Sahuarita, with a **movie complex** opening up in May and a 220-acre **mixed-use development** expected to receive zoning approval in the next two months.

Trade

Wal-Mart Corp. plans to open its **first "supercenter" in Tucson** — and fifth statewide — by early fall. The 207,000-square-foot store near the Foothills Mall at LaCholla Boulevard and West Magee Road will **employ 500 people**, with 70 percent working full time. Wal-Mart employs 14,000 people in Arizona at 45 Wal-Mart and Sam's Club stores.

Services

Sprint has selected its Tucson call center to **support services** for its new **Broadband Wireless Group**. The move will **expand the workforce** at the center **from 65 to 450** by the **end of 2000**. All of the new positions will be full-time and pay about $9 an hour. A new 40,000-square-foot facility will be added at Sprint's operations at 3160 E. Transcon Way to accommodate the additional workers.

Global Gateway, which provides Internet and data-management services by way of "telecom hotels," is opening an office in Tucson. The Los Angeles-based company expects to **permanently employ 75 technicians** in Tucson, where it will purchase buildings for storing computer servers and other equipment to operate telecommunications networks for other businesses. Global Gateway has purchased the 98,000-square-foot building currently housing the headquarters of Tucson Electric Power, 220 W. Sixth St., for its Tucson operations.

An unspecified number of positions will be **eliminated** when **CIGNA HealthCare closes three medical centers in Tucson** and **one in Green Valley** by the **end of the year**. Eighty employees will be offered an opportunity to apply for positions at CIGNA facilities in the Phoenix area. CIGNA decided to curtail its Medicare operations in Tucson, but will still contract with providers for other services.

Balance of State

Manufacturing

A skeleton staff is operating a **Tucker Housewares plant** at **Kingman Airport Industrial Park** while parent company Zeta Consumer Products Corp. attempts to find a buyer for the Kingman plant, as well as Tucker facilities in Illinois and Texas. New Jersey-based Zeta has filed for Chapter 11 bankruptcy protection and must get court approval to sell the Tucker plants, which make plastic housewares, trash cans, and tote bags. Since last fall, **all but seven of the 110 workers** at the 478,000-square-foot Kingman plant **have been laid off**, including 33 last month. Increased competition and cost of raw materials are blamed for the company's financial problems.

Seven months after a Flagstaff-area tissue-manufacturing facility and paper mill were sold to Georgia-Pacific, operations are "rolling along" smoothly. Although it appeared that previous owner Wisconsin Tissue might lay off workers at the 470,000-square-foot plant in Bellemont (20 miles west of Flagstaff), the new owners are expecting **plant employment** to **increase by 45 percent** this year to 120. Starting pay is $11.44 an hour. One reason for employment growth is that Georgia-Pacific recently closed its closest other operation in Bellingham, Wash.

Guardian Fiberglass plans to **hire 150 people**, for mostly **production jobs**, at its new 600,000-square-foot **plant in**

Many Complex Issues Involved in Growth Debate

(continued from page 10)

27. Ibid.

28. Ibid.

29. Median family income is the median income of households with two or more persons.

30. Housing Opportunity Index, 3rd Quarter 1999, National Association of Home Builders.

31. Ibid.

32. Ibid.

33. "Portland's Housing Myth," *Willamette Week*, Internet Edition, Politics, Jan. 13, 1999.

34. Ibid.

35. Ibid.

36. "Urban-growth Boundaries and Housing Affordability: Lessons from Portland," Reason Public Policy Institute, Policy Brief No. 11, October 1999.

37. Ibid.

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39. Ibid.

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41. "Metro *at a glance* — Myths and Realities," Metro, Portland, Ore., 1998

42. "The Economic and Fiscal Impact of Home Building," Elliott D. Pollack & Co., Internet site: www.arizonaeconomy.com, Feb. 2000.

43. "Initiative stirs fears of housing tailspin," Macarios Juarex Jr., *The Arizona Daily Star*, Internet Edition, Feb. 18, 2000.

44. "Urban-growth Boundaries and Housing Affordability: Lessons from Portland," Reason Public Policy Institute, Policy Brief No. 11, October 1999, Footnote 16. AET

—Brent Fine
Arizona Economic Trends Editor

Kingman (4200 Industrial Blvd). The Auburn Hills, Mich.-based company, which will start operations in late June, will pay the workers an average of $25,000 a year. Guardian, which makes building insulation products for the construction industry, previously had hired about 50 administrative and supervisory workers.

Mining

Stung by higher operating costs, which hurt its second-quarter earnings, **Phelps Dodge Corp.** said it will **lay off 65 workers** at its **Miami, Ariz., copper mine**. Phoenix-based Phelps Dodge is temporarily eliminating its strip mining operation in Miami, partly because of the high cost of electricity due to warm temperatures and maintenance of its electric power plants.

Construction

The Flagstaff City Council approved a **233,000-square-foot medical complex** on 27 acres in Switzer Canyon. The medical building, on Forest Avenue between San Francisco Street and Turquoise Drive, was scaled back about 25 percent from its original size because of traffic concerns. A 144-unit assisted-living center was also eliminated from the original proposal.

Work has begun on a project in **Payson** that includes a **six-screen movie theater** and **30,000 square feet of retail and office space**. The first phase of **Sawmill Crossing**, which will also include four additional pad sites, will be built on 7½ acres south of Main Street and west of Beeline Highway. The 16,500-square-foot movie complex, which will feature stadium seating and digital sound, is expected to open in late fall.

By a 55-45 margin, **Prescott Valley** voters approved a referendum in mid-May that will allow rezoning of 1,243 acres for a **3,400-home subdivision** and 190-acre golf course. The **Glassford Hill project**, which is expected to take 12 to 17 years to complete, still must receive certification of an adequate water supply at a hearing July 12. **Universal Homes**, the developer, expects to break ground shortly after it receives final approval.

Trade

C & H Properties of Scottsdale has announced plans to **transform** a former **Payson Wal-Mart store into a mini-mall** that will feature a four-screen movie theater, retail shops, and restaurants. Expected to be named **Rim Country Mall**, about 50 percent of the shopping center's space has been preleased. Payson Athletic Club will be one of the major tenants, leasing 10,000 square feet. Payson has seen an "explosion" of retail projects in the past year, including the opening of a new Wal-Mart "supercenter" and the current building of another shopping center, Sawmill Crossing.

Services

Work has begun on a 14,000-square-foot **child-care facility** for 2,200 **employees of Riverside Resort Casino in Laughlin**, Nev. The $1.2 million **Parkway Childcare Center** — which will include indoor and outdoor recreational facilities, computer centers, a library, and several age-appropriate learning centers — will be located at the Bullhead Air Park in Bullhead City. Ariz., across the river from the hotel/casino. AET

Nonfarm Employment Grew Nearly 5% Over Year

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mass layoffs that occurred late last summer in the copper industry.

Construction employment declined less than expected in the first quarter, though gains over the year are less than the 10-year average. Employment growth rates in construction have been slowing in the past year, and will likely continue to slow due to pressure placed on the industry through higher mortgage rates.

Employment in the transportation, communications, and public utilities (TCPU) group was less than seasonally expected. Greater-than-expected declines in transportation employment were countered by relatively large gains in communications and public utilities. Since the first quarter of 1999, employment increased by a substantial 5.5 percent, well above the 10-year average rate of 3.1 percent for the first quarter.

Arizona's finance, insurance, and real estate group countered typical seasonal losses with a gain of 800 jobs. Over-the-year job gains for this group are also substantial at 8,200, or 6.1 percent.

Trade employment fell half a percent as expected during the first quarter. Gains over the year are greater than expected, though, at 4.1 percent. The 10-year average growth rate is 3.3 percent. Growth in the trade group was driven by the retail sector. Since the first quarter of 1999, restaurants and bars experienced twice the expected employment increase. Wholesale employment showed a third consecutive quarter of over-the-year employment losses.

As anticipated, services employment increased by just under one percentage point during the first quarter. Over-the-year gains were higher than expected though, with nearly 50,000 jobs added since the first quarter of 1999. Growth in this industry was driven yet again by business services, which is by far the largest and fastest growing component of the group.

Government employment increased slightly during the first quarter, largely due to employment of census workers. Over-the-year growth was slower than the 10-year average, at 2.2 percent, or 7,900 jobs. AET

—Charlotte Armerding,
RA Economic Analysis Intern

ARIZONA ECONOMIC TRENDS

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The purpose of *Arizona Economic Trends* is to provide an update and analysis of state and county employment and economic data, as well as information on state and national programs and policies that affect the nation's and Arizona's labor markets. Included in this publication twice yearly are Research Administration's two-year projections of employment, unemployment, and labor force for Arizona and its major sub-state regions.

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